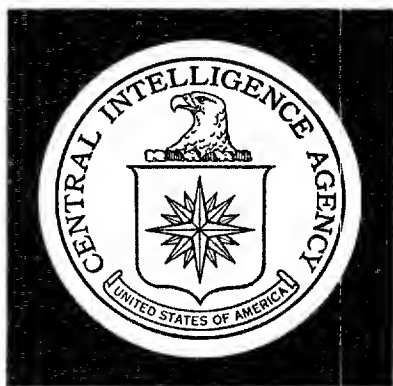


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DIRECTORATE OF  
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State Department review completed

16 May 1969

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Approved For Release 2004/03/11 : CIA-RDP79T00975A013700090001-0

Approved For Release 2004/03/11 : CIA-RDP79T00975A013700090001-0

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No. 0117/69  
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**[ Vietnam:** The Vietnamese Communists are being cautious in their initial reaction to President Nixon's speech of 14 May.

A initial and pro forma denunciation of the proposal for a mutual troop withdrawal was made by a Liberation Front spokesman in Paris, but it was apparently intended to buy time while the entire package was studied in Hanoi. Radio Hanoi did not comment in the first 24 hours and the head of the North Vietnamese delegation in Paris cancelled a scheduled public appearance in Sweden, probably to participate in the consideration of the content and format of the official response.

Most South Vietnamese political figures echoed President Thieu's prompt endorsement of the speech. Although some legislators expressed concern over the possibility that the present Constitution was not flexible enough to cover all the political recommendations, the proposals for mutual troop withdrawals were received enthusiastically.

\* \* \* \*

Communist military activity was light on 14-15 May. Shellings were relatively minor during the period and the ground action in the northern province of Quang Tin and in the area northwest of Saigon slackened. The over-all enemy posture points to more attacks during the next few days, probably over a wide front and possibly on a greater scale than the initial attacks of 11-12 May.



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Malaysia: Reinforced security forces, aided by a heavy rain, have imposed an uneasy quiet in Kuala Lumpur.

Much of the trouble that continued on 15 May stemmed from the actions of looters and marauding criminal gangs. Official figures of deaths in the past three days of rioting are edging toward the hundred mark, but many more are believed to have been killed. There are reports of scattered incidents outside the capital region, but the country-side thus far appears generally calm. Curfews are in effect in areas most susceptible to racial violence.

Yesterday Prime Minister Rahman announced plans to recruit a "national defense force" to control widespread violence. Rahman's invitation to youth to join "the forces to defend the country against the terrorists" will cause renewed apprehension in the nation's Chinese community. Rahman's appeal may be directed particularly to members of the youth organization of the Malay party of the tri-party Alliance.

He also charged Communist China with having sent money into Malaysia to spread racial unrest. There is no evidence available that suggests any appreciable Communist effort to disrupt the recent elections or cause unrest.

The government's action in suspending not yet completed elections in East Malaysia raises the possibility of disorders spreading to that region. Because of communication and transportation difficulties in the large and thinly populated East Malaysian states of Sabah and Sarawak, elections there were being held in stages scheduled to end the first week in June. The federal government had been hoping to increase its majority in parliament through the elections in East Malaysia.

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The government suspension order, under recently invoked emergency powers, seems certain to intensify local discontent with Kuala Lumpur's policies. This is especially true in Sarawak where the opposition is strongly organized in the Sarawak United People's Party--a leftwing, predominantly Chinese group--and the Sarawak National Party--a largely tribal party favoring greater autonomy. The chairman of the Chinese party is planning to protest the election suspension.

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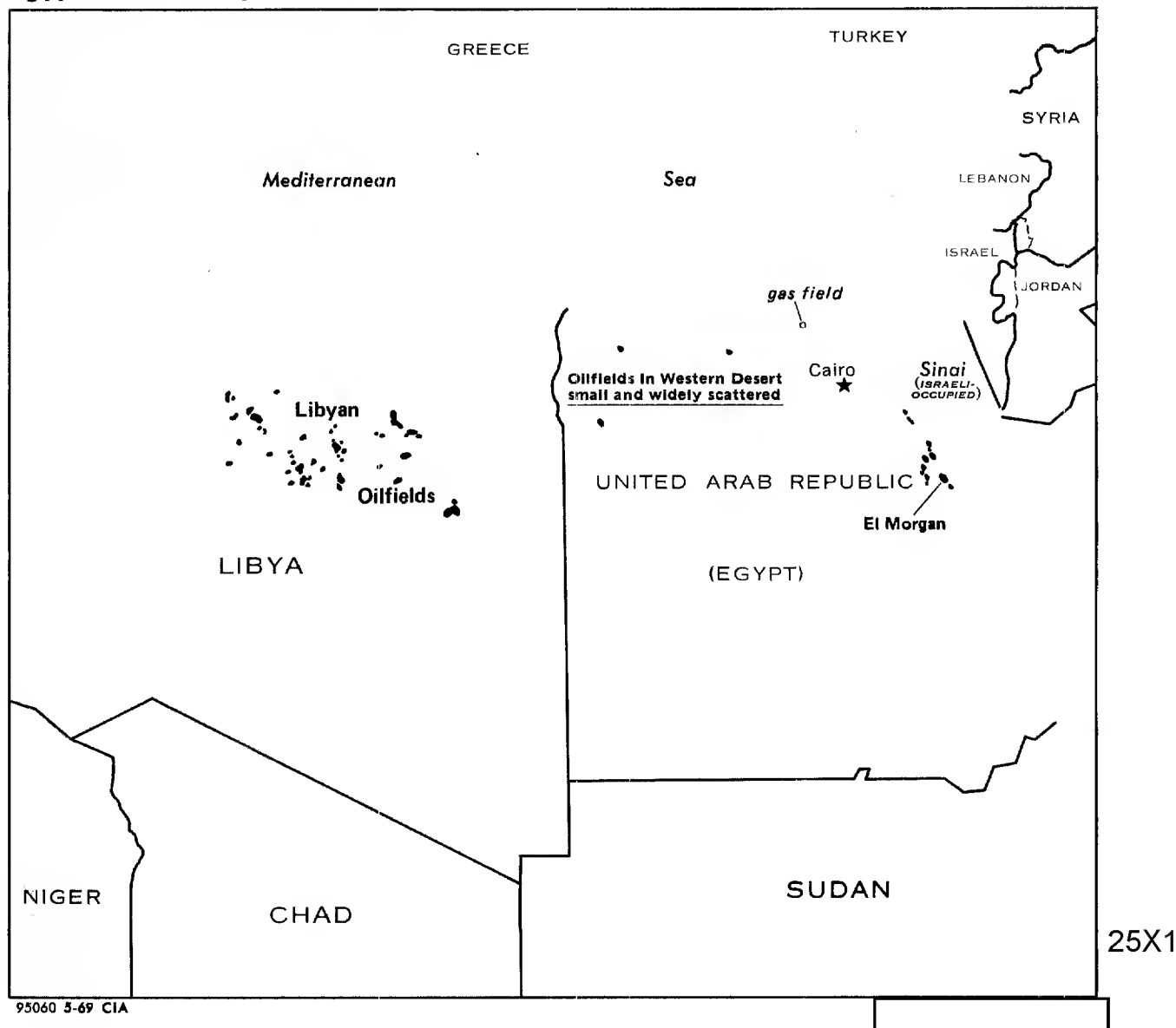
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## Egyptian and Libyan Oilfields



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Egypt: Three Western oil companies are doubtful that large oil deposits will be found on the western desert.

Geologists of the companies have found only small, widely scattered fields there. Cairo had hoped that deposits in Libya would extend into Egyptian territory. The new Egyptian fields, however, apparently bear little resemblance to the rich Libyan fields, and are geologically dissimilar to one another, indicating that major reserves probably do not exist in this area.

One oil company believes that the prospects for a substantial discovery are best in the Gulf of Suez. Except for the El Morgan field, however, this company has not found rich deposits in this area.

A second company is discouraged about its prospects in the Nile Delta. Extensive exploration and test drilling have yielded only one small gas field thus far, and the company plans to cut back on its investment.

Egypt has counted on the discovery of substantial new oil deposits to provide the funds to cover foreign debt service obligations. If no such discoveries are forthcoming, prospects for debt repayment in the future are bleak.

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Iran-Consortium: This year's hassle between the Shah and the Western oil consortium has ended in a compromise.

The Iranian Government has accepted the consortium's package proposal of about \$930 million in oil revenue and about \$80 million in an interest-free advance payment. The package will provide even more than the \$1 billion the Shah had demanded for the year which began on 21 March. Although the advance payment is to be repaid during the next year, thus reducing oil revenues for 1970, the consortium has agreed to consider similar advance payment for each of the remaining three years of the Iranian development plan (1968-72).

It is unlikely that the Shah is overly elated by the compromise; he probably had hoped to get at least \$950 million in direct oil revenues. Nevertheless, the package enables him to claim a victory and is thus an acceptable face-saving device.

The parties have agreed to meet again in October to begin negotiations on next year's production estimates. The gap between Iranian demands and consortium estimates will be even wider in coming years, and increasingly bitter altercations can be expected. The settlement is also likely to lead to increased pressure from Arab oil states for matching revenues and benefits.

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USSR: The practice by collective farms of making excessive wage payments to their workers is adding to inflationary pressures in the USSR.

During 1965-68, average wages of collective farmers rose by 32 percent compared with 18 percent for state workers. Although the rate of wage increase slackened last year, a 23-percent rise in rural savings deposits indicates that inflationary pressures are continuing to mount in the countryside.

The Brezhnev program to stimulate agriculture during 1966-70 increased the prices at which the state buys crop and livestock products in order to permit the collective farms both to raise wages and finance additional investment. The government has failed to meet its targets for delivering farm machinery and equipment, however, with the result that the farms have supplemented wages with funds that were meant for investment purposes.

The failure of many farms to set aside part of their income for capital outlays contradicts both the existing statutes and the new draft charter for collective farms published last month. The excessive wage payments were criticized at the plenum of the central committee in October 1968, and in recent months have again been censured by Brezhnev and other officials.

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West Germany: Speculative buying of the mark may resume soon.

The measures proposed by Bonn in support of the decision against revaluation, now awaiting almost certain Bundestag approval, appear to be only a weak deterrent to renewed speculation. Failure to present a more credible counterspeculative package reflects the deep division in the governing coalition.

The government's program relies principally on a broadening of the 100-percent reserve requirement to cover all foreign liabilities of German banks. The reported heavy foreign demand for deutsche mark-denoted securities and the relatively small outflow of foreign funds this week suggest, however, that big speculators remain convinced that Bonn will have to revalue eventually. Leakages of speculative funds from foreign into German deposits also may seriously impair the effectiveness of the proposed measure.

The anemic domestic restraints announced by the government are not likely to have any significant dampening effect on the rapidly developing domestic boom. More severe deflationary measures, however, would inevitably increase the already excessive foreign trade surplus and choke off some of the exports of long-term capital that have thus far balanced the foreign accounts. It is thus probably only a question of time before the authorities will have to resort to revaluation as the only means to avert severe domestic inflation, a specter more distasteful to the population than revaluation.

Bonn has thus far managed to combine rapid economic growth with a remarkable degree of price stability. But with the economic upswing now well into its second year, signs of a growing inflationary

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threat are multiplying. With industry rapidly approaching full capacity operation, unemployment falling to 0.7 percent of the labor force, and foreign labor increasingly difficult to recruit, the rate of growth of industrial production is expected to decline significantly through the remainder of the year, while demand continues to intensify.



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Dahomey: The beleaguered government of President Zinsou may soon be overthrown.

A government workers' strike expected today will be a stiff test of Zinsou's staying power. Other workers probably will follow suit, confronting the government with a general strike. The students are already striking. In such a situation, Zinsou's fate will depend on the army. In the face of widespread demonstrations, it may be more inclined to oust Zinsou than to use force against the strikers.

The failure of Zinsou to make significant progress with the welter of problems, particularly financial, he inherited from the military regime that put him in power last August has made a clash with labor and students only a matter of time. He hastened the conflict earlier this month by proposing drastic cuts in government employees' family allowances.

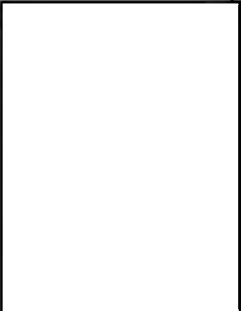

The workers' resolve to challenge Zinsou was stiffened this week when the government arrested six teachers on charges of fomenting the student strike. Zinsou is aware of the growing danger that he may be overthrown, but insists he will not back away from the stands he has taken. If he remains inflexible, Dahomey may be destined for its fourth military takeover in five years.

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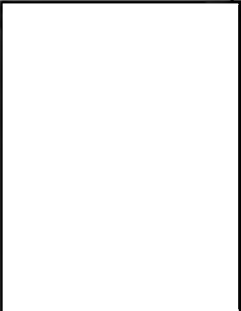

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25X1  Czechoslovakia: Party chief Husak yesterday went to Budapest for talks with Hungarian party boss Kadar. The visit may be the first in a series designed to win the confidence of bloc leaders. Although the press of most of the invasion powers has praised the new regime, various officials have privately expressed reservations about Husak's politics, especially his reputation as an ardent nationalist. Husak probably will get along well with Kadar; both are pragmatists who know how to keep strict party control while satisfying some popular demands for internal change. 

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25X1  West Germany - Cambodia: Further friction seems likely between the West German governing parties over Bonn's response to Cambodia's recognition of East Germany. Thus far, Bonn has denounced the recognition as "an unfriendly act" and recalled its ambassador. After a heated argument at a cabinet session on 14 May, the Social Democrats balked at a Christian Democratic call for a complete break in relations with Cambodia. With the Social Democrats committed to a liberal foreign policy course and the Christian Democrats intent on sharpening their conservative image prior to the September election, the debate may continue. A government spokesman stresses that Bonn's options are still open. 

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UN - Middle East: Secretary-General Thant is considering the creation of a special three-man team to study the Middle East refugee question as an adjunct to four-power mediation efforts. He believes that the principle of free choice must be maintained, but that it would be unrealistic to expect Israel to take back all the refugees. An important ingredient to any new resettlement plan, he thinks, might be international aid to the Arab host countries in a long range economic development program which keys development to absorption of refugees. Thant mentioned World Bank President Robert McNamara as a possible US representative on the three-man team. [REDACTED]

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